

Message Text

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12

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

CEA-02 NEA-10 DRC-01 /205 W

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 12/31/73

TAGS: EAID, EFIN

SUBJECT: COST OVERRUNS OF ADB-FINANCED PROJECTS

1. BOARD PAPER (R86-73) POUCHED NAC AGENCIES NOV. 2 OUTLINES BANK PROPOSALS FOR HANDLING COST OVERRUNS ATTRIBUTABLE TO CURRENCY REALIGNMENT AND/OR PRICE INCREASES. BOARD SCHEDULED TO DISCUSS PROPOSALS NOV. 15.

2. BANK PROPOSES THAT ANY COST OVERRUN FROM EITHER CURRENCY REALIGNMENTS OR PRICE INCREASES UP TO \$100 THOUSAND BE MET BY BORROWING COUNTRY AND NOT BY BANK IN FORM OF SUPPLEMENTARY LOAN.

3. BANK PROPOSES THAT COST OVERRUNS FROM \$100 THOUSAND TO \$500 THOUSAND OR TO 10 PERCENT OF THE ORIGINAL LOAN AMOUNT, WHICHEVER IS LOWER, BE FINANCED BY THE BANK IN THE FOLLOWING

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MANNER:

(A) BANK STAFF WOULD PREPARE A BRIEF REPORT OF PROJECT AND REASONS FOR THE COST OVERRUN AND BASED UPON THAT REPORT, WOULD DRAW UP THE PRESIDENT'S REPORT AND RECOMMENDATIONS FOR PRESENTATION TO THE BOARD. ACTUAL REPORT, HOWEVER, SIMILAR TO CUSTOMARY LOAN APPRAISAL REPORT, WOULD NOT BE CIRCULATED TO THE BOARD.

(B) THE PRESIDENT'S REPORT AND RECOMMENDATIONS WOULD BE CIRCULATED TO THE BOARD FOR DECISION ON A "NO OBJECTION" BASIS. THE PROPOSED SUPPLEMENTARY LOAN WOULD BE CONSIDERED APPROVED BY THE BOARD IF NO OBJECTIONS WERE RECEIVED WITHIN ONE WEEK (REPEAT ONE WEEK) FOLLOWING CIRCULATION OF THE PRESIDENT'S REPORT.

(C) FOR A SPECIAL FUND SUPPLEMENTARY LOAN, THE INTEREST RATE AND TERMS WOULD BE IDENTICAL TO THOSE PERTAINING TO THE ORIGINAL LOAN. FOR A SUPPLEMENTAL LOAN IN WHICH THE ORIGINAL WAS FINANCED THROUGH A BLENDING OF ORDINARY CAPITAL AND SPECIAL FUNDS, THE RATES AND TERMS WOULD BE CONSIDERED ON A CASE BY CASE BASIS WITH NO NECESSARY REFERENCE TO THE ORIGINAL MIX OF THE LOAN. FOR A SUPPLEMENTAL LOAN IN WHICH THE ORIGINAL WAS FINANCED FROM ORDINARY CAPITAL RESOURCES, THE INTEREST RATE WOULD BE THE CURRENT RATE OF INTEREST CHARGED BY THE BANK. TERMS OF SUCH A SUPPLEMENTARY LOAN WOULD BE SYNCHRONIZED WITH THE TERMS OF THE ORIGINAL LOAN.

4. USADB SERIOUSLY CONCERNED WITH SEVERAL PROVISIONS IN THE ABOVE PROPOSAL. USADB FEELS IT ESSENTIAL THAT STAFF REPORT BE CIRCULATED TO THE BOARD OF DIRECTORS ALONG WITH THE PRESIDENT'S APPROVAL ON A "NO OBJECTION" BASIS AND BELIEVES THAT PERIOD OF CONSIDERATION SHOULD BE CUSTOMARY THREE WEEKS INSTEAD OF THE PROPOSED ONE WEEK.

5. BY REQUIRING SUBMISSION OF THE BANK'S REPORT ON THE COST OVERRUN AND BY REQUIRING BANK PRESENTATION TO THE BOARD AFTER CUSTOMARY THREE WEEK INTERVAL, PRESSURE IS MAINTAINED ON BANK STAFF TO CAREFULLY SCRUTINIZE AND EVALUATE COSTING ESTIMATES OF EACH COMPONENT OF A PROJECT IN ITS FORMULATION STATE. SUCH PRESSURE NECESSARY IN OPINION OF USADB IN ORDER TO MINIMIZE NUMBER OF COST OVERRUN INSTANCES. PROCEDURE PROPOSED BY THE BANK WOULD REMOVE SUCH PRESSURE, ALLOWING BANK TO FOREGO FORMAL PRESENTATION TO BOARD AND OBTAIN BOARD APPROVAL IN MANNER USUALLY RESERVED FOR MOST ROUTINE OF PROPOSALS.

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6. IN LIGHT OF ABOVE, INTEND TO RECOMMEND THAT BANK PROPOSAL BE ALTERED TO ACCOMMODATE USADB OBJECTIONS OUTLINED PARA. 4, I.E. USADB WOULD PROPOSE (A) CIRCULATION OF BANK REPORT TO BOARD, AND (B) FORMAL PRESENTATION BY BANK TO BOARD THREE WEEKS AFTER CIRCULATION OF DOCUMENTS. CONSEQUENTLY, APPRECIATE COMMENTS SOONEST SUCH THAT LOBBYING EFFORT CAN BEGIN WITH OTHER BOARD MEMBERS.

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